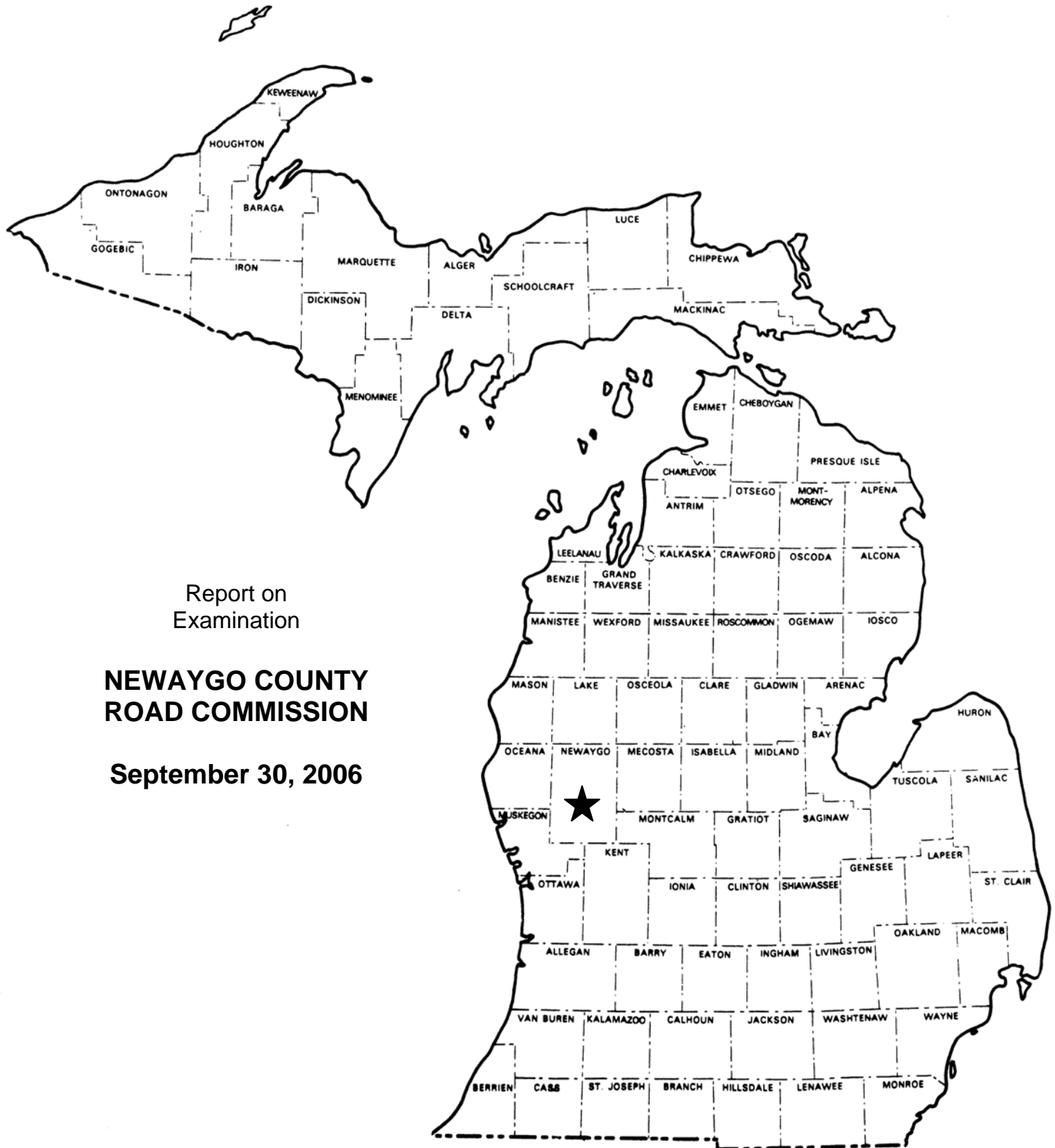


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**NEWAYGO COUNTY
ROAD COMMISSION**

September 30, 2006

NEWAYGO COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

William Gonyon
Chairman

Louis Meeuwenberg
Vice-Chairman

Dale E. Twing
Member

Kelly Smith
Manager

Kristin Luchies
Clerk

COUNTY POPULATION--2000
47,874

STATE EQUALIZED VALUATION--2006
\$1,863,882,291



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 16, 2006

Newaygo County Road Commission
Board of County Road Commissioners
935 One Mile Road
White Cloud, Michigan 49849

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Newaygo County Road Commission, a component unit of Newaygo County, Michigan, as of and for the year ended September 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Newaygo County Road Commission as of September 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2006 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 9 and budgetary comparison information in Exhibits I and J are not part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board and generally accepted accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Newaygo County Road Commission, taken as a whole. The accompanying supplementary and related information in Exhibits K through M is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

NEWAYGO COUNTY ROAD COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
 BASIC FINANCIAL STATEMENTS--GOVERNMENT-WIDE/GOVERNMENTAL FUND FINANCIAL STATEMENTS:	
EXHIBIT A--Statement of Net Assets	10
EXHIBIT B--Statement of Activities	11
EXHIBIT C--Balance Sheet	12
EXHIBIT D--Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets.....	13
EXHIBIT E--Statement of Revenues, Expenditures and Changes in Fund Balance.....	14
EXHIBIT F--Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	15
EXHIBIT G--Statement of Net Assets--Fiduciary Fund	16
EXHIBIT H--Statement of Changes in Net Assets--Fiduciary Funds.....	17
NOTES TO FINANCIAL STATEMENTS	18
 REQUIRED SUPPLEMENTARY INFORMATION	
EXHIBIT I--Schedule of Revenues--Budget and Actual	37
EXHIBIT J--Schedule of Expenditures--Budget and Actual	38
 SUPPLEMENTAL SCHEDULES	
EXHIBIT K--Analysis of Changes in Fund Balances	39
EXHIBIT L--Analysis of Revenues and Other Financing Sources	40
EXHIBIT M--Analysis of Expenditures	41
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	42
Comments and Recommendations.....	44

NEWAYGO COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Newaygo County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2006. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

NEWAYGO COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Report the Road Commission's Major Fund

The fund financial statements begin on page ten and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 23.78% or \$3,468,313 from \$14,587,160 to \$18,055,473 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, were \$1,914,661 during 2006, an increase of \$498,514 from the prior year.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net or related debt) are considered restricted.

NEWAYGO COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The investment in capital assets for 2006, net of related debt, was \$16,140,812, an increase of \$2,969,799 from the prior year. The increase was primarily the result of reporting infrastructure in the amount of \$3,252,689 for the year 2006.

Net assets as of the year ended September 30, 2006 are as follows:

	09/30/05 Governmental Activities	09/30/06 Governmental Activities	Variance	Percentage
Current and Other Assets	\$ 2,776,135	\$ 3,076,079	\$ 299,944	10.80%
Net Capital Assets	<u>14,353,367</u>	<u>17,078,650</u>	<u>2,725,283</u>	<u>18.99%</u>
Total Assets	<u>17,129,502</u>	<u>20,154,729</u>	<u>3,025,227</u>	<u>17.66%</u>
Current Liabilities	941,000	734,072	(206,928)	-28.19%
Noncurrent Liabilities	<u>1,601,342</u>	<u>1,365,184</u>	<u>(236,158)</u>	<u>-17.30%</u>
Total Liabilities	<u>2,542,342</u>	<u>2,099,256</u>	<u>(443,086)</u>	<u>-17.43%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	13,171,013	16,140,812	2,969,799	22.55%
Restricted	<u>1,416,147</u>	<u>1,914,661</u>	<u>498,514</u>	<u>35.20%</u>
Total Net Assets	<u><u>\$14,587,160</u></u>	<u><u>\$18,055,473</u></u>	<u><u>\$3,468,313</u></u>	<u><u>23.78%</u></u>

NEWAYGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

	<u>2005</u>	<u>2006</u>	<u>Difference</u>	<u>Percent</u>
Program Revenue				
Licenses and Permits	\$ 14,650	\$ 15,155	\$ 505	3.33%
Federal Grants	502,447	588,427	85,980	14.61%
State Grants	6,117,114	6,083,345	(33,769)	-0.56%
Contributions From Local Units	1,711,307	1,772,474	61,167	3.45%
Charges for Services	677,251	798,794	121,543	15.22%
Investment Earnings	29,260	41,319	12,059	29.19%
Reimbursements	88,736	9,029	(79,707)	-882.79%
General Revenue				
Insurance Recoveries	5,312		(5,312)	0.00%
Gain on Equipment Disposal	512,259	295,477	(216,782)	-73.37%
Total Revenue	<u>9,658,336</u>	<u>9,604,020</u>	<u>(54,316)</u>	<u>-0.57%</u>
Expenses				
Primary Road Maintenance	1,518,479	1,348,050	170,429	11.22%
Local Road Maintenance	2,483,297	2,189,798	293,499	11.82%
Nonroad Project		80,176	(80,176)	0.00%
State Trunkline Maintenance	664,839	787,165	(122,326)	-18.40%
Net Equipment Expense	32,061	527,131	(495,070)	-1544.15%
Net Administrative Expense	627,008	644,436	(17,428)	-2.78%
Infrastructure Depreciation Expense	268,268	489,284	(221,016)	-82.39%
Compensated Absences	8,240	5,624	2,616	31.75%
Interest Expense	38,762	64,043	(25,281)	-65.22%
Total Expenses	<u>5,640,954</u>	<u>6,135,707</u>	<u>(494,753)</u>	<u>-8.77%</u>
Increase in Net Assets	<u>\$4,017,382</u>	<u>\$ 3,468,313</u>	<u>\$ 440,437</u>	<u>10.96%</u>

The net assets increased by \$440,437 for the year ended September 30, 2006 as a result of the following factors. We received an increase in Federal grant revenue, where the related expenses were recorded as infrastructure capital assets; our investment revenue and contributions from local units also increased. We took conservative measures during 2006 to become more efficient, reduce our expenditures and reduce maintenance due to the projected decrease in Motor Vehicle Fund Revenue. Maintenance expenses did decrease from 2005 to 2006.

NEWAYGO COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

A summary of changes in the Operating Fund is as follows:

	09/30/05 Operating Fund	09/30/06 Operating Fund	Favorable (Unfavorable) Variance	Variance Percent %
Revenue				
Permits	\$ 14,650	\$ 15,155	\$ 505	3.45%
Federal Grants	502,447	588,427	85,980	17.11%
State Grants	6,117,114	6,083,345	(33,769)	-0.55%
Contributions From Local Units	1,711,307	1,772,474	61,167	3.57%
Charges for Services	677,251	795,514	118,263	17.46%
Interest and Rents	29,260	41,319	12,059	41.21%
Other Revenue	600,995	307,786	(293,209)	-48.79%
Total Program Revenues	9,653,024	9,604,020	(49,004)	-0.51%
Expenditures				
Public Works (Road)	9,279,969	8,827,444	452,525	4.88%
Net Capital Outlay	926,280	(36,121)	962,401	103.90%
Debt Service	760,081	433,959	326,122	42.91%
Total Expenditures	10,966,330	9,225,282	1,741,048	15.88%
Excess of Revenue Over (Under) Expenditures	(1,313,306)	378,738	1,692,044	-128.84%
Other Financing Sources				
Insurance Recoveries	5,312		(5,312)	-100.00%
Installment Purchase Proceeds	922,090	125,400	(796,690)	100.00%
Total Other Financing Sources	927,402	125,400	(802,002)	-86.48%
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(385,904)	504,138	890,042	-230.64%
Fund Balance--Beginning	2,053,814	1,667,910	(385,904)	-18.79%
Fund Balance--Ending	\$ 1,667,910	\$ 2,172,048	\$ 504,138	30.23%

NEWAYGO COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended September 30, 2006, the fund balance of the General Operations Fund increased by \$504,138 as compared to the prior year. This change was a result of taking certain measures to reduce expenditures, due to decreasing revenues, and increasing costs of doing business.

Total operating revenues were \$9,604,020, a decrease of \$49,004 as compared to last year. This change in revenues resulted from a decrease in State Grants and a 3% decrease in Michigan Transportation Funds.

Total expenditures were \$9,225,282, a decrease of \$1,741,048, in comparison to last year. This change in expenditures is a result of the Road Commission taking measures to reduce expenditures, cut costs and become more efficient due to the rising costs of maintaining roads and doing business. The decrease in expenditures also relates to a reduction in work force and less maintenance work performed on the road system. We also reduced our debt and postponed some new equipment purchases.

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2006, the Road Commission had \$17,078,650 invested in capital assets as follows:

	<u>09/30/05</u>	<u>09/30/06</u>	<u>Total Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 117,955	\$ 207,582	43.18%
Infrastructure--Land and Improvements	<u>3,857,690</u>	<u>3,859,093</u>	<u>0.04%</u>
Subtotal	<u>3,975,645</u>	<u>4,066,675</u>	<u>2.24%</u>
Capital Assets Being Depreciated			
Buildings	1,144,275	1,144,275	0.00%
Road Equipment	5,554,842	5,678,605	2.18%
Shop Equipment	215,919	215,919	0.00%
Office Equipment	91,910	94,942	3.19%
Engineer's Equipment	100,285	100,285	0.00%
Administration Car	29,795	29,795	0.00%
Infrastructure--Bridges	340,645	1,077,434	68.38%
Infrastructure--Roads	<u>8,465,936</u>	<u>10,980,433</u>	<u>22.90%</u>
Subtotal	<u>15,943,607</u>	<u>19,321,688</u>	<u>17.48%</u>
Total Capital Assets	19,919,252	23,388,363	14.83%
Total Accumulated Depreciation	<u>(5,565,885)</u>	<u>(6,307,713)</u>	<u>11.76%</u>
Total Net Capital Assets	<u><u>\$ 14,353,367</u></u>	<u><u>\$ 17,080,650</u></u>	<u><u>15.97%</u></u>

NEWAYGO COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$3,252,689. The infrastructure recorded in 2006 was depreciated in 2007. The infrastructure is financed through Federal, State and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB No. 34.

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ 736,789
Various Resurfacing Projects and Related Land/Right-of-Way	2,515,900
Road and Shop Equipment	443,479
Land	89,627
Administrative, Office and Engineering Equipment	<u>3,655</u>
 Total Additions	 <u><u>\$ 3,789,450</u></u>

There was one new installment purchase agreement entered into during 2006; all other equipment was acquired with Road Commission funds.

During 2006, the Road Commission traded in and/or disposed of road and shop equipment with a purchase amount of \$320,339 and related depreciation of \$320,339.

Debt

At the year end, the Road Commission had \$937,838 in installment purchase agreements versus \$1,182,354 last period, a decrease of \$244,516 or 20.68% as shown below:

	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	<u>\$1,182,354</u>	<u>\$937,838</u>	<u>\$244,516</u>	<u>20.68%</u>
Total	<u><u>\$1,182,354</u></u>	<u><u>\$937,838</u></u>	<u><u>\$244,516</u></u>	<u><u>20.68%</u></u>

More detailed information about the Road Commission's long-term liabilities is presented in Note F to the financial statements.

During 2006, the Road Commission made the final balloon payments on two installment purchase agreements and took out new debt in the form of a new installment purchase agreement.

NEWAYGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the year.

The original revenue budget for 2006 was \$9,385,731 and was amended to \$8,741,308, due to the fact that a Federal Aid project was dropped, State Buyout Rural Funds were less than anticipated, and Motor Vehicle Fund Revenue was averaging a 4% reduction.

The Road Commission's original expenditures were projected at \$9,385,731 and then were amended to \$8,741,308. Actual expenditures were \$9,225,282 resulting in actual expenditures being more than budgeted by \$483,974. This was primarily due to the increase in the cost of doing business, maintaining primary and local roads, and revenues not increasing at the same rate. We also completed a large number of Federal Aid and other construction projects during the 2006 Fiscal Year.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors considered is the economy and the increase cost in maintaining the road system. The main factors that were considered were the rising cost of fuel prices and the cost of supplies and parts from vendors. The board also factored in the estimated 3% to 4% reduction in Motor Vehicle Fund Revenues for the 2006 Fiscal Year. The Road Commission derives approximately 60% of its revenue from the fuel tax collected in 2006. The recent economic downturn and high gas prices has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed. The Road Commission received approximately 18% of its revenues from township contributions during 2006. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. The board also factored in the amount of Federal Aid projects accepted for the 2006 Fiscal Year.

The above items were also considered when adopting the budget for 2007. Amounts available for appropriation in the 2007 fiscal year budget are \$11,239,818.

The board realizes and the reader should also understand that there are not sufficient funds available to repair and/or rebuild every road in Newaygo County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Newaygo County.

NEWAYGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Newaygo County administrative offices at: 935 One Mile Road, White Cloud, Michigan 49349.

NEWAYGO COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2006

EXHIBIT A

ASSETS

Cash	\$ 1,137,317
Accounts Receivable	
Sundry Accounts	5,059
State--Trunkline Maintenance	124,988
Michigan Transportation Fund	858,091
Due on County Road Agreements	520,087
Inventories	
Road Materials	242,100
Equipment Parts and Materials	188,437
Capital Assets (Net of Accumulated Depreciation)	<u>17,078,650</u>
Total Assets	<u>20,154,729</u>

LIABILITIES

Current Liabilities	
Accounts Payable	579,028
Due to State of Michigan	17,975
Accrued Liabilities	75,659
Deferred Revenue	
Forest Road Funds	61,410
Noncurrent Liabilities	
Advance From State	169,959
Installment Purchase Agreements Payable--Due Within One Year	201,671
Installment Purchase Agreements Payable--Due in More Than One Year	736,167
Vested Employee Benefits Payable	<u>257,387</u>
Total Liabilities	<u>2,099,256</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	16,140,812
Restricted for County Roads	<u>1,914,661</u>
Total Net Assets	<u><u>\$18,055,473</u></u>

The Notes to Financial Statements are an integral part of this statement.

NEWAYGO COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,348,050
Local Road Maintenance	2,189,798
Nonroad Project	80,176
State Trunkline Maintenance	787,165
Net Equipment Expense	527,131
Net Administrative Expense	644,436
Infrastructure Depreciation	489,284
Compensated Absences	5,624
Interest Expense	64,043
	<hr/>
Total Program Expenses	6,135,707
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	15,155
Charges for Services	798,794
Reimbursements	9,029
Operating Grants and Contributions	
Michigan Transportation Funds	5,652,140
Investment Earnings	41,319
Capital Grants and Contributions	
Federal Grants	588,427
State Grants	431,205
Contributions From Local Units	1,772,474
	<hr/>
Total Program Revenue	9,308,543
	<hr/>
Net Program Revenue	3,172,836
	<hr/>
General Revenue	
Gain on Equipment Disposal	295,477
	<hr/>
Total General Revenues	295,477
	<hr/>
Change in Net Assets	3,468,313
	<hr/>
Net Assets	
Beginning of Year	14,587,160
	<hr/>
End of Year	\$18,055,473
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

NEWAYGO COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2006

EXHIBIT C

**GOVERNMENTAL
FUND TYPE**

ASSETS

Cash	\$ 1,137,317
Accounts Receivable--Sundry	5,059
Due From State	
Trunkline Maintenance	124,988
Michigan Transportation Fund	858,091
Due on County Road Agreements	520,087
Inventories	
Road Materials	242,100
Equipment Parts and Materials	188,437
Total Assets	<u><u>\$ 3,076,079</u></u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 552,519
Due to State	44,484
Accrued Liabilities	75,659
Advances	
State Trunkline Equipment Purchase	116,406
State Trunkline Maintenance	53,553
Deferred Revenue--Forest Road Funds	61,410
Total Liabilities	<u>904,031</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	430,537
Unreserved and Undesignated	1,741,511
Total Fund Equities	<u>2,172,048</u>
Total Liabilities and Fund Equities	<u><u>\$ 3,076,079</u></u>

The Notes to Financial Statements are an integral part of this statement.

**NEWAYGO COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2006**

EXHIBIT D

Total Governmental Fund Balance	\$ 2,172,048
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	17,078,650
---	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(1,195,225)</u>
--	--------------------

Net Assets of Governmental Activities	<u><u>\$18,055,473</u></u>
---------------------------------------	----------------------------

The Notes to Financial Statements are an integral part of this statement.

NEWAYGO COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2006

EXHIBIT E

	Operating Fund
Revenues	
Permits	\$ 15,155
Federal Grants	588,427
State Grants	6,083,345
Contributions From Local Units	1,772,474
Charges for Services	795,514
Interest and Rents	41,319
Other Revenue	307,786
	<hr/>
Total Revenues	9,604,020
	<hr/>
Expenditures	
Public Works	8,827,444
Capital Outlay	(36,121)
Debt Service	433,959
	<hr/>
Total Expenditures	9,225,282
	<hr/>
Excess of Revenues Over (Under) Expenditures	378,738
Other Financing Sources (Uses)	
Installment Purchase Proceeds	125,400
	<hr/>
Total Other Financing Sources (Uses)	125,400
	<hr/>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	504,138
Fund Balance--October 1, 2005	1,667,910
	<hr/>
Fund Balance--September 30, 2006	\$ 2,172,048
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

**NEWAYGO COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES
For the Year Ended September 30, 2006**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ 504,138
--	------------

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,725,283
Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.	244,516
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)	(5,624)
--	---------

Change in Net Assets of Governmental Activities	<u><u>\$ 3,468,313</u></u>
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The Notes to Financial Statements are an integral part of this statement.

**NEWAYGO COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
FIDUCIARY FUND
September 30, 2006**

EXHIBIT G

	<u>Pension Trust</u>
<u>ASSETS</u>	
Deposits	
Cash	\$ 1,180
Money Market Funds	396,152
Investments (at Market Value)	
US Government, Agencies and Corporate Securities	2,469,678
Common Stocks	2,165,873
Equity Funds	26,530
Accrued Income	<u>124,299</u>
Total Assets	<u>5,183,712</u>
<u>LIABILITIES</u>	
Total Liabilities	<u>-</u>
<u>NET ASSETS</u>	
Held in Trust for Pension Benefits	<u><u>\$ 5,183,712</u></u>

The Notes to Financial Statements are an integral part of this statement.

**NEWAYGO COUNTY ROAD COMMISSION
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
For the Year Ended September 30, 2006**

EXHIBIT H

	<u>Pension Trust</u>
Additions	
Contributions	
Employer	<u>\$ 300,000</u>
Total Contributions	<u>300,000</u>
Investment Income	
Interest and Dividends	172,494
Realized Gain (Loss) From Sale of Investments	163,032
Net Appreciation (Depreciation) in Fair Value of Investments	<u>(182,525)</u>
Net Investment Income (Loss)	<u>153,001</u>
Total Additions	<u>453,001</u>
Deductions	
Benefit Payments	309,585
Administrative and Other Expenses	<u>41,402</u>
Total Deductions	<u>350,987</u>
Change in Net Assets	102,014
Net Assets--October 1, 2005	<u>5,081,698</u>
Net Assets--September 30, 2006	<u><u>\$ 5,183,712</u></u>

The Notes to Financial Statements are an integral part of this statement.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Newaygo County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Newaygo County Road Commission.

NOTE A--REPORTING ENTITY

The Newaygo County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an appointed 3 member board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Newaygo County Road Commission, a component unit of Newaygo County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund money distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Newaygo County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; and (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction, equipment maintenance, repairs, and operations as used.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Newaygo County Road Commission as assets with an initial individual cost of more \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Newaygo County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before September 30, 2008, as permitted by GASB Statement No. 34.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (manager) prepares and submits a proposed operating budget to the board for its review and consideration. The board of county road commissioners conducts a public budget hearing and, subsequently, adopts the operating budget. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

The Road Commission has not complied with certain provisions of Public Act 2 of 1968, as amended. The following activities exceeded the final amended budget:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Structure--Preservation/Structural Improvements		\$ 23,013	\$ (23,013)
Local Structure--Preservation/Structural Improvements	\$ 712,953	713,776	(823)
Equipment Expense	213,727	527,131	(313,404)
Principal	247,460	369,916	(122,456)
Interest	48,383	64,043	(15,660)

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are made in banks in the name of the Newaygo County Treasurer. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Pension Trust Fund

Michigan Compiled Laws, Section 38.1121, authorizes the Road Commission to invest pension assets in a wide variety of investments including: stocks, bonds, certificates of deposit, real estate, annuity contracts, obligations of a specified nature and real or personal property. Specific limitations apply to the various investment types. The Road Commission pension fund investments are in accordance with statutory authority. Some Pension Trust monies are invested in common stocks and money market funds, which cannot, by definition, be categorized by risk, which is in accordance with GASB Statement No. 3.

The Road Commission has designated one bank for the deposit of Road Commission funds and another financial institution for its pension funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits (excluding the pension fund) were reported in the basic financial statements in the following category:

	<u>Operating Fund</u>
Cash	<u>\$ 1,137,317</u>
Total	<u><u>\$ 1,137,317</u></u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 1,137,217
Petty Cash and Cash on Hand	<u>100</u>
Total	<u><u>\$ 1,137,317</u></u>

The bank balance of the primary government's deposits is \$1,149,790, of which \$100,000 is covered by Federal depository insurance.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH DEPOSITS AND INVESTMENTS (Continued)

Pension Fund Investments

The Pension Fund's deposits and investment at September 30, 2006 are included in the Pension Fund's statement of plan net assets under the following classifications:

	<u>Statement of Plan Net Assets Classification</u>		
	<u>Cash and Short-Term Investments</u>	<u>Investments</u>	<u>Total</u>
Deposits	\$ 397,332		\$ 397,332
Investments		\$ 4,786,380	4,786,380
Total	<u>\$ 397,332</u>	<u>\$ 4,786,380</u>	<u>\$ 5,183,712</u>

Deposits

Cash and short-term investments of the pension fund represent bank account deposits of \$1,180 and money market investments of \$396,152.

Investments

All of pension trust fund's are categorized as a risk category 2 type of investment, for which the investment that is neither insured nor registered. The investments are held in trust by the counterparty's trust department (or custodian) in the Road Commission's name. Management believes that the pension trust investments comply with the investment authority noted above.

As of September 30, 2006, the Road Commission had the following investments:

	<u>Reported Amount (Fair Value)</u>
Investments	
US Government, Agencies and Corporate Securities	\$ 2,469,678
Common Stocks	2,165,873
Equity Funds	26,530
Accrued Income	124,299
Total Primary Government	<u>\$ 4,786,380</u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

The following is a summary of the changes in capital assets:

	Restated Account Balances 09/30/05	Additions	Deductions	Account Balances 09/30/06
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 117,955	\$ 89,627		\$ 207,582
Infrastructure Land Improvements	3,857,690	1,403		3,859,093
Subtotal	3,975,645	91,030	\$ -	4,066,675
Capital Assets Being Depreciated				
Buildings	1,144,275			1,144,275
Road Equipment	5,554,842	443,479	319,716	5,678,605
Shop Equipment	215,919			215,919
Office Equipment	91,910	3,655	623	94,942
Engineers' Equipment	100,285			100,285
Administration Car	29,795			29,795
Infrastructure--Bridges	340,645	736,789		1,077,434
Infrastructure--Roads	8,465,936	2,514,497		10,980,433
Total	15,943,607	3,698,420	320,339	19,321,688
Less Accumulated Depreciation				
Land Improvements		1,838		1,838
Buildings	794,979	28,639		823,618
Road Equipment	4,010,126	509,665	320,142	4,199,649
Shop Equipment	170,146	16,157		186,303
Office Equipment	68,220	7,220	197	75,243
Engineers' Equipment	76,186	4,564		80,750
Administration Car	21,353	4,800		26,153
Infrastructure--Bridges	20,294	22,150		42,444
Infrastructure--Roads	404,581	467,134		871,715
Total	5,565,885	1,062,167	320,339	6,307,713
Net Capital Assets Being Depreciated	10,377,722	3,698,420	1,062,167	13,013,975
Total Net Capital Assets	\$ 14,353,367	\$ 3,789,450	\$ 1,062,167	\$ 17,080,650

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$ 509,665
Indirect Equipment	17,995
Net Administrative Expenses	
Administrative	40,659
Engineering	4,564
Infrastructure Depreciation Expense	<u>489,284</u>
Total Depreciation Expense	<u><u>\$ 1,062,167</u></u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	Balance 09/30/05	Additions (Reductions)	Balance 09/30/06	Due Within One Year
Caterpillar Wheel Loader Model 950G \$152,300 Capital Lease Dated August 10, 2000	\$ 109,005	\$ (109,005)	-	-
Caterpillar Wheel Loader Model 966G \$225,300 Capital Lease Dated September 28, 2000	150,071	(150,071)	-	-
Komatsu Excavator Model PC270LC-6L \$171,800 Capital Lease Dated November 13, 2001	117,693	(12,986)	\$ 104,707	\$ 104,707
Caterpillar Financial Services Lease for 1 Motor Grader 143H, Serial #APN00674	182,492	(18,058)	164,434	18,835
Caterpillar Financial Services Lease for 1 Motor Grader 143H, Serial #APN00685	182,492	(18,058)	164,434	18,835
Caterpillar Financial Services Lease for 1 Motor Grader 143H, Serial #APN00672	157,591	(15,030)	142,561	15,676
Caterpillar Financial Services Lease for 1 Motor Grader 143H, Serial #APN00687	157,591	(15,030)	142,561	15,676
Leasing 2, Inc. Installment Purchase Agreement for 1 Volvo L110E Wheel Loader	125,419	(12,801)	112,618	13,646
Leasing 2, Inc. Installment Purchase Agreement for 1 Volvo L110E Wheel Loader		125,400 (18,877)	106,523	14,296
Vested Employee Benefits Vacation and Sick Leave	251,763	5,624	257,387	
Totals	<u>\$ 1,434,117</u>	<u>\$ (238,892)</u>	<u>\$ 1,195,225</u>	<u>\$ 201,671</u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

A Komatsu Excavator Model PC270LC-6L was purchased in November 2001 under a lease purchase agreement through Komatsu Financial Services Corporation. The original purchase price was \$171,800, with 5 annual payments of \$18,567.39 and a \$110,000 balloon payment due in October 2006 at an implied interest rate of 4.75%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/06</u>	<u>Interest Payable if Held to Maturity</u>
11/13/01	\$ 171,800	4.75%	2006	<u>\$104,707</u>	<u>\$ 5,293</u>
Total				<u><u>\$104,707</u></u>	<u><u>\$ 5,293</u></u>

Caterpillar Motor Grader 143h Model #APN00674 was purchased in July 2005 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$208,398, with 5 annual payments of \$25,905.42 and a \$110,000 balloon payment due in July 2010 at an implied interest rate of 4.3%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/06</u>	<u>Interest Payable if Held to Maturity</u>
07/05/05	\$ 208,398	4.30%	2007	\$ 18,835	\$ 7,070
			2008	19,645	6,260
			2009	20,489	5,416
			2010	<u>105,465</u>	<u>4,535</u>
Total				<u><u>\$164,434</u></u>	<u><u>\$ 23,281</u></u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Caterpillar Motor Grader 143h Model #APN00685 was purchased in July 2005 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$208,397, with 5 annual payments of \$25,905.42 and a \$110,000 balloon payment due in July 2010 at an implied interest rate of 4.3%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/06</u>	<u>Interest Payable if Held to Maturity</u>
07/05/05	\$ 208,397	4.30%	2007	\$ 18,835	\$ 7,070
			2008	19,645	6,260
			2009	20,489	5,416
			2010	105,465	4,535
Total				<u>\$ 164,434</u>	<u>\$ 23,281</u>

Caterpillar Motor Grader 143h Model #APN00672 was purchased in July 2005 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$179,398, with 5 annual payments of \$21,806.53 and a \$97,500 balloon payment due in July 2010 at an implied interest rate of 4.3%.

Loan Date	Loan Amount	Interest Rate	Maturity Year	Outstanding 09/30/06	Interest Payable if Held to Maturity
07/05/05	\$ 179,398	4.30%	2007	\$ 15,676	\$ 6,131
			2008	16,351	5,456
			2009	17,054	4,753
			2010	93,480	4,020
Total				\$142,561	\$ 20,360

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Caterpillar Motor Grader 143h Model #APN00687 was purchased in July 2005 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$179,397, with 5 annual payments of \$21,806.53 and a \$97,500 balloon payment due in July 2010 at an implied interest rate of 4.3%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/06</u>	<u>Interest Payable if Held to Maturity</u>
07/05/05	\$ 179,397	4.30%	2007	\$ 15,676	\$ 6,131
			2008	16,351	5,456
			2009	17,054	4,753
			2010	<u>93,480</u>	<u>4,020</u>
Total				<u>\$142,561</u>	<u>\$ 20,360</u>

Caterpillar Motor Grader 143h Model #APN00672 was purchased in March 2005 under a lease purchase agreement through Leasing 2 Financial Services Corporation. The original purchase price was \$146,500, with 4 annual payments of \$21,081.13 and a \$90,000 balloon payment due in July 2009 at an implied interest rate of 4.66%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/06</u>	<u>Interest Payable if Held to Maturity</u>
07/05/05	\$ 146,500	4.66%	2007	\$ 13,645	\$ 7,436
			2008	14,547	6,534
			2009	<u>84,426</u>	<u>5,574</u>
Total				<u>\$ 112,618</u>	<u>\$ 19,544</u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Caterpillar 446D Backhoe Loader was purchased in October 2005 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$124,500, with 5 annual payments of \$18,877 and a \$47,500 balloon payment due in October 2010 at an implied interest rate of 4.3%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/06</u>	<u>Interest Payable if Held to Maturity</u>
10/10/05	\$ 124,500	4.30%	2006	\$ 14,296	\$ 4,580
			2007	14,911	3,966
			2008	15,552	3,325
			2009	16,221	2,656
			2010	<u>45,541</u>	<u>1,958</u>
Total				<u>\$ 106,521</u>	<u>\$ 16,485</u>

Vested Employee Benefits

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employee on his or her anniversary date. Union employees must generally use vacation leave within 1 year after being earned. If a union employee has less than 1 day unused, he/she will be paid for that time. A union employee, however, may request carryover of 10 unused vacation days into the next year under special circumstances. Foremen and management employees may carry forward 50% of vacation leave earned to the following year but may not extend it beyond 1 year. Upon termination of employment, vacation leave is payable at 100%. The liability recorded in long-term debt for vacation earned, but not used as of September 30, 2006, totaled \$89,294 based on 100% of the vacation leave balances.

Sick leave is accumulated at the rate of 1 day per month by union employees and ½ day per month for management and administrative employees not to exceed 1200 hours or 150 days.

Sick leave is payable at 50% to the maximum of 75 days when an employee retires or dies. The sick leave benefits recorded in long-term debt consists of 50% of accumulated sick leave, which amounted to \$168,093.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

Plan Description

The Newaygo County Road Commission pension plan is a single employer-defined benefit plan administered through Fifth Third Bank. The information disclosed as of September 30, 2006, is based on information provided by Fifth Third Bank. The Fifth Third Bank plan had 47 active participants and 32 retirees as of January 1, 2006, the most recent period for which actuarial data was available. The plan administrator, Fifth Third Bank, did not issue a separate report for the year 2006.

The system provides retirement, disability and death benefits to plan members and their beneficiaries, in accordance with the Road Commission labor agreements and personnel policies.

Funding Policy

The board of county road commissioners had established a payment of \$25,000 per month to fund the plan. During the January 28, 1998 meeting, the board authorized the investment of future contributions in a stock fund. Fifth Third Bank separately identifies and reports on the contributions and earnings in a "Defined Benefit Pension Plan Account." During 2006, contributions were invested in money market investments, stocks, and bonds.

Contributions

Employees are not required to or able to contribute any funds after June 4, 1991; except, effective February 27, 2002, management staff employees may purchase up to five years of service under the plan for covered military service. Prior employee accumulations receive 3% interest. The Road Commission usually makes contributions in accordance with the minimum recommended employer contribution required by the actuary plan. During the plan year ended December 31, 2005, the Road Commission contributed \$245,000 and the required recommended contribution was \$258,715, the minimum recommended contribution was not available.

Summary of Significant Accounting Policies and Plan Asset Matters

The assets of the pension plan consist of money market investments, stocks, and bonds purchased under the control of Fifth Third Bank. The company currently provides monthly "statement highlights" providing a summary of balances, which provides the income and expense data accounting for the monthly changes in the Group Annuity Contract value for the General Account only. These statements provided for the audit report are effective through December 31 each year.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Schedule of Funding Progress (2)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Percent Funded</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
01/01/06	\$ 5,042,437	\$ 4,566,338	110%	\$ 476,099	\$ 1,935,687	-25%
01/01/05	4,873,724	4,318,871	113%	554,853	1,974,310	-28%
01/01/04	4,519,745	3,813,034	119%	706,711	1,939,501	-36%
01/01/03*	3,935,638	3,667,795	107%	267,843	1,864,260	-14%
05/01/02	4,135,792	3,519,773	118%	616,019	1,663,528	-37%
05/01/01	4,165,895	3,354,031	124%	811,864	1,631,206	-50%
05/01/00	5,106,455	4,514,850	113%	591,605	1,473,654	-40%
05/01/99	4,239,124	4,638,018	91%	(398,894)	1,309,680	30%
05/01/98	3,973,188	4,200,658	95%	(227,470)	1,240,481	18%
05/01/97	3,766,554	4,365,812	86%	(599,258)	1,069,693	56%
05/01/96	3,627,282	4,570,908	79%	(943,626)	1,115,510	85%

Schedule of Employer Contributions

<u>Year Ending</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
12/31/05	\$258,715	\$245,000	95%
12/31/04	244,140	271,200	111%
12/31/03	267,087	258,342	97%
12/31/02 *	134,405	145,363	108%
04/30/02	190,618	274,160	144%
04/30/01	183,205	184,000	100%
04/30/00	235,781	276,000	117%
04/30/99	223,655	276,000	123%
04/30/98	255,557	276,000	108%

*8 month plan year ending December 31, 2002

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of January 1, 2006, the latest actuarial valuation, follows:

Actuarial Cost Method	Frozen Initial Liability
Amortization Method	Level Percent, Closed
Remaining Amortization Period	(1)
Asset Valuation Method	(1)
Actuarial Assumptions	
Investment Rate of Return	8%
Projected Salary Increases*	5%
*Includes Inflation at	4%
Cost of Living Adjustments	None

(1) Information not provided in actuarial report.

(2) GASB Statements No. 25 and No. 27 require 10 years of information. Information is not available to complete table per GASB Statement No. 25 and GASB Statement No. 27.

NOTE H--DEFERRED COMPENSATION PLAN

The Newaygo County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in annuity contracts described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of the Section 457 plans and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--POST-EMPLOYMENT BENEFITS

Newaygo County Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy, to all employees who retire from the Road Commission. The Road Commission pays all costs for health insurance premiums, including spouse, for management employees who retire at age 55 with 30 years service, but not later than 62 and continuing until the retiree reaches age 65, or from early optional retirement date of age 55 with 10 years or more of service and continuing until the retiree and his spouse reach age 65. After age 65, retirees must reimburse the employer for the cost of insurance. The Road Commission continues to pay the premiums for union employees, including spouse, who retire at age 62 with 10 years service, or from early optional retirement date of age 55 with 10 years or more of service, and continuing until the retiree and their spouse reach age 65. Effective June 1, 1999, the Road Commission shall pay for the Medicare Supplemental available to continue coverage at the rate of 25% of the premium for Medicare Supplemental Coverage for union employees. Prior to June 1, 1999, after age 65, retirees must reimburse the employer for the cost of insurance.

Employees who retire before the respective age limits do not qualify for health insurance even though they may have the required years of service.

Currently, 8 retirees met those eligibility requirements. Expenditures for post-employment health care benefits are recognized when insurance premiums are paid. Net premiums paid by the Road Commission for retirees during 2006 totaled \$66,253. There were no retirees that qualified for the Medicare Supplemental Coverage.

NOTE J--RISK MANAGEMENT

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board. Commercial insurance was purchased for health care benefits.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At September 30, 2006, there were no claims which exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2006, the Federal Aid received and expended by the Road Commission was \$579,677 for contracted projects and \$8,749 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission.

**NEWAYGO COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
For the Year Ended September 30, 2006**

EXHIBIT I

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Weight Permits	-	\$ 15,670	\$ 15,155	\$ (515)
Federal Grants				
Surface Transportation Program	\$ 722,000	114,512	114,513	1
Critical Bridge	645,000	473,914	473,914	-
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,701,717	3,107,553	3,096,185	(11,368)
Local Road	2,488,283	2,382,932	2,374,722	(8,210)
Primary Urban Road	80,952	89,031	88,665	(366)
Local Urban Road	39,612	43,569	43,390	(179)
Snow Removal	30,000	39,178	39,178	-
Critical Bridge		88,859	88,859	-
Economic Development Funds				
Forest Funds (E)	101,167	101,167	140,922	39,755
STP Buy Out	350,000	201,424	201,424	-
Other State Grants			-	-
Contributions--Local Units				
Townships	1,500,000	1,836,493	1,707,697	(128,796)
County	12,000	-	64,777	64,777
Charges for Services				
State Trunkline Maintenance	600,000	835,748	787,070	(48,678)
State Trunkline Nonmaintenance	5,000	-	-	-
Salvage Sales	-	9,444	8,444	(1,000)
Interest and Rents				
Interest Earned	-	37,391	41,319	3,928
Other Revenue				
Contributions From Private Sources	-	-	3,280	3,280
Refunds	-	9,427	9,029	(398)
Gain on Equipment Disposal	100,000	115,059	295,477	180,418
Total Revenue	9,385,731	9,511,371	9,604,020	92,649
Other Financing Sources				
Installment Purchase Proceeds		-	125,400	125,400
Total Revenue and Other Financing Sources	9,385,731	9,511,371	<u>\$ 9,729,420</u>	<u>\$ 218,049</u>
Fund Balance--October 1, 2005	1,667,910	1,667,910		
Total Budget	<u>\$ 11,053,641</u>	<u>\$ 11,179,281</u>		

The Notes to Financial Statements are an integral part of this statement

**NEWAYGO COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
For the Year Ended September 30, 2006**

EXHIBIT J

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,250,000	\$ 1,423,347	\$ 930,383	\$ 492,964
Routine and Preventive Maintenance	1,114,000	1,466,656	1,348,050	118,606
Local Road				
Preservation/Structural Improvements	1,458,766	1,675,907	1,585,516	90,391
Routine and Preventive Maintenance	1,855,694	2,363,303	2,189,798	173,505
Primary Road Structure				
Preservation/Structural Improvements	-	-	23,013	(23,013)
Local Road Structure				
Preservation/Structural Improvements	774,313	712,953	713,776	(823)
Nonroad Projects		80,176	80,176	-
State Trunkline Maintenance	600,000	787,165	787,165	-
Equipment Expense--Net	1,060,000	213,727		
Direct			\$ 1,086,182	
Indirect			393,640	
Operating			459,586	
Less: Equipment Rentals			<u>(1,412,277)</u>	(313,404)
Administrative Expense--Net	784,000	929,165		
Administrative Expense			717,252	
Less: Handling Charges			-	
Purchase Discounts			-	
Overhead--Other			-	
Overhead--State			<u>(74,816)</u>	286,729
Capital Outlay--Net	310,000	466,217		
Capital Outlay			536,761	
Less: Depreciation Credits			<u>(572,882)</u>	
Equipment Retirements			-	502,338
Debt Service				
Principal Payments	135,840	247,460	369,916	(122,456)
Interest Expense	<u>43,118</u>	<u>48,383</u>	<u>64,043</u>	<u>(15,660)</u>
Total Expenditures	9,385,731	10,414,459	<u>\$9,225,282</u>	<u>\$1,189,177</u>
Fund Balance--September 30, 2006	<u>1,667,910</u>	<u>764,822</u>		
Total Budget	<u>\$ 11,053,641</u>	<u>\$ 11,179,281</u>		

The Notes to Financial Statements are an integral part of this statement.

NEWAYGO COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,709,931	\$ 4,696,203	\$ 1,197,886	\$ 9,604,020
Total Expenditures	2,660,346	5,205,717	1,359,219	9,225,282
Excess of Revenues Over (Under) Expenditures	1,049,585	(509,514)	(161,333)	378,738
Other Financing Sources (Uses)				
Installment Purchase Proceeds			125,400	125,400
Optional Transfers	(509,514)	509,514		-
Total Other Financing Sources (Uses)	(509,514)	509,514	125,400	125,400
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	540,071	-	(35,933)	504,138
Fund Balance--October 1, 2005	599,317	-	1,068,593	1,667,910
Fund Balance--September 30, 2006	\$ 1,139,388	\$ -	\$ 1,032,660	\$ 2,172,048

NEWAYGO COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER
FINANCING SOURCES
For the Year Ended September 30, 2006

EXHIBIT L

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Weight Permits			\$ 15,155	\$ 15,155
Federal Grants				
Surface Transportation Program	\$ 114,513			114,513
Critical Bridge		\$ 473,914		473,914
State Grants				
Michigan Transportation Fund				
Engineering	5,659	4,341		10,000
Allocation	3,096,185	2,374,722		5,470,907
Urban	88,665	43,390		132,055
Snow Removal	39,178			39,178
Critical Bridge		88,859		88,859
Economic Development Fund				
Forest Funds (E)	140,922			140,922
STP Buy Out	201,424			201,424
Contributions--Local Units				
Townships		1,707,697		1,707,697
County			64,777	64,777
Charges for Services				
State Trunkline Maintenance			787,070	787,070
Salvage Sales			8,444	8,444
Interest and Rents				
Interest Earned	23,385		17,934	41,319
Other Revenue				
Contributions From Private Sources		3,280		3,280
Refunds			9,029	9,029
Gain on Equipment Disposal			295,477	295,477
Total Revenue	3,709,931	4,696,203	1,197,886	9,604,020
Other Financing Sources				
Installment Purchase Proceeds			125,400	125,400
Total Revenues and Other Financing Sources	\$ 3,709,931	\$ 4,696,203	\$ 1,323,286	\$ 9,729,420

NEWAYGO COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2006

EXHIBIT M

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 930,383			\$ 930,383
Routine and Preventive Maintenance	1,348,050			1,348,050
Local Road				
Preservation/Structural Improvements		\$ 1,585,516		1,585,516
Routine and Preventive Maintenance		2,189,798		2,189,798
Primary Road Structures				
Preservation/Structural Improvements	23,013			23,013
Local Road Structures				
Preservation/Structural Improvements		713,776		713,776
Nonroad Projects			\$ 80,176	80,176
State Trunkline Maintenance			787,165	787,165
Equipment Expense--Net (Per Exhibit J)	141,166	291,925	94,040	527,131
Administrative Expense--Net (Per Exhibit J)	217,734	424,702		642,436
Capital Outlay--Net (Per Exhibit J)			(36,121)	(36,121)
Debt Service				
Principal Payments			369,916	369,916
Interest Payments			64,043	64,043
Total Expenditures	\$ 2,660,346	\$ 5,205,717	\$ 1,359,219	\$ 9,225,282



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 16, 2006

Newaygo County Road Commission
Board of County Road Commissioners
935 One Mile Road
White Cloud, Michigan 49849

RE: Report on Internal Control Over Financial Reporting and Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance with Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities of the Newaygo County Road Commission, a component unit of Newaygo County, as of and for the year ended September 30, 2006, which collectively comprise Newaygo County Road Commission's basic financial statements and have issued our report thereon dated November 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Newaygo County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation in the internal control over financial reporting that, in our judgment, could adversely affect the Newaygo County Road Commission's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations as items 04-1 and 05-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and,

accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether Newaygo County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards, however, we did note other instances of noncompliance described in the accompanying comments and recommendations as items 04-2 and 06-1.

This report is intended solely for the information and use of the management, the Road Commission Board, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

NEWAYGO COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS

Although our study and evaluation of internal controls disclosed no condition that we believe to be a material weakness, our audit disclosed certain other reportable conditions which we wish to point out for consideration by the management of the Newaygo County Road Commission.

Inventory Internal Control

Finding 04-1

Condition: The inventory control accounts listed in the year end distribution report did not agree with inventory subsidiary records (inventory status report).

We physically counted a sample of 25 parts/materials and compared the physical count to the inventory status report. The actual inventory counts for 6 of the items tested did not match the computer system, as to quantities on hand (all 6 items were underreported in the computer system). One item sampled was considered obsolete. The road material items sampled appeared to have very little control over their usage and recording actual figures on the records.

The sign inventory had a negative \$15,658 value on the inventory status report.

Criteria: The Uniform Accounting Procedures Manual for County Road Commissions sets forth the minimum recommended physical inventorying procedures.

All inventoried items should be physically counted and the perpetual inventory records adjusted at least once each year. Any adjustments between the physical inventory count and the general ledger inventory control account shall be offset through either Activity #511, Account #791 for items in Account #110, or Activity #514, Account #791 for items in Account #109. Individual inventory items need to be adjusted to reflect the actual count on physical or cycle inventories.

The following information is intended to provide an outline of the basic procedures necessary to properly conduct a physical inventory and to adjust the accounting records to agree with the adjusted perpetual inventory record totals.

A. Timing the physical inventorying procedures:

Seasonal road materials should be cross-sectioned prior to snowfall and at the end of the appropriate season.

Other stock items should be physically inventoried one or more times a year.

B. Documentation that such a physical inventory was actually performed should be kept on file. This documentation consists of:

A posting of each individual perpetual inventory record of the date on which the stock item was physically inventoried and the actual count initialed by the designated clerk.

NEWAYGO COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS (Continued)

Copies of cross-section diagrams and computation, which were used to determine the quantities of stockpiled gravel and other road materials.

A separate listing of inventory overages and shortages, by stock item, should be maintained during the taking of the physical inventory and all significant variances should be thoroughly investigated by both the accounting and stockroom personnel.

C. Summarizing year end perpetual inventory record balances.

A worksheet summary should be prepared of all perpetual inventory balances as of year end with separate totals for each subaccount.

D. Accounting department's responsibilities:

Verify the extensions and footings on all inventory worksheet summaries.

Determine that all invoices for materials stocked prior to year end, but not paid until the subsequent year, are properly recorded as year end accounts payable.

Adjust the year end general ledger inventory account balances to the grand total of the worksheet summary of inventory balances in accordance with the procedures outlined in this accounting manual.

E. Stockroom personnel should also be required to report on obsolete, unusable or overstocked items at least once each year.

Recommendation: We recommend that responsible Road Commission personnel compare the inventory status report to the distribution report to assure that the balances in Account 109 - Inventory - Road Materials and Account 110 - Inventory - Equipment Parts and Materials agree with the totals of the inventory status report and that no negative balances within the accounts exist. We also recommend that responsible Road Commission personnel compare quantities on hand to computer control accounts and have personnel sign requisition forms as described in the Uniform Accounting Procedures Manual for Road Commissions and report obsolete items at least annually.

NEWAYGO COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS (Continued)

Capital Asset Records

Finding 05-1

Condition: The additions to the capital asset records did not agree with the amount posted to capital outlay. The equipment retirements were not properly recorded during the year. The infrastructure listing did not reconcile with the balances in the Act 51 report.

Criteria: Subsidiary records should reconcile to control accounts and reflect the total costs of all capital assets purchased during the year. Additions to capital assets must equal capital outlay. Depreciation should be recorded on an annual basis until the asset is fully depreciated, sold, or otherwise disposed. When assets are sold and/or disposed, the gain or loss should be recorded along with the applicable equipment retirement amount. Finally, the additions to the infrastructure listing should agree with the amounts posted to each individual preservation account in the distribution report and on the Act 51 report.

Recommendation: We recommend that the responsible Road Commission personnel review the capital asset records to ensure the accuracy of the postings of all aspects of the capital asset records.

STATUTORY COMPLIANCE

Our examination revealed the following instances of noncompliance with State statutes.

Uniform Budgeting and Accounting Act Provisions--Expenditures

Finding 04-2

Condition: As detailed in Exhibit J, expenditures in 3 of 15 activities exceeded the amended budget and expenditures exceeded the budget in total.

Criteria: The expenditure of funds in excess of the budget is contrary to the provisions of Section 17 of Public Act 2 of 1968, which provides, in part, as follows:

"Except as otherwise provided in Section 19, a deviation from the original general appropriations act (budget) shall not be made without amending the general appropriations act. The legislative body (board of county road commissioners) of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined."

Section 18(3) also provides, in part, that:

"...except as otherwise provided in Section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body."

NEWAYGO COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE (Continued)

Directive: We direct that the Road Commission comply with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act, being Sections 141.421-141.440 of the Michigan Compiled Laws.

Social Security Number Privacy Policy

Finding 06-01

Condition: The Newaygo County Road Commission has not adopted a Social Security Number Privacy Policy.

Criteria: According to the Social Security Privacy Act, PA 454 of 2004, MCL 455.84, Section 4, subsection 1, beginning January 1, 2006, a person in the ordinary course of business who obtains or retains information about one or more social security numbers must create a policy that does at least all of the following:

- (a) Ensures to the extent practicable the confidentiality of the social security numbers.
- (b) Prohibits unlawful disclosure of the social security numbers.
- (c) Limits who has access to information or documents that contain the social security numbers.
- (d) Describes how to properly dispose of documents that contain the social security numbers.
- (e) Establishes penalties for violation of the privacy policy.

Section 4, subsection 2, requires a person that creates a privacy policy under subsection 1 shall publish the privacy policy in an employee handbook, in a procedures manual, or in one or more similar documents, which may be made available electronically.

Directive: We direct that the Newaygo County Road Commission adopt a Social Security Number Privacy Policy implementing at least the minimum protections and procedures listed above.